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SUBJECT: WORSENING ECONOMIC INDICATORS FOR MOLDOVA

¶11. (SBU) Summary: In October 2008, the outlook for Moldova's economy was still positive for 2009. Since that forecast the economic situation for the entire region has deteriorated dramatically. The Moldovan National Bureau of Statistics (NBS) published numbers for the first quarter, underscoring the impact of the economic crisis on the country. Moldova's GDP declined 6.9 percent in the first three months of 2009 due to falling industrial output, exports and consumption. The only sector in the economy registering positive growth was agriculture. The national currency, the Moldovan leu (MDL), depreciated slightly in the first quarter as the Government of Moldova (GOM) intervened heavily in the foreign exchange market to support the MDL. Foreign trade turnover experienced a sharp decline. Moldovan economic growth has been driven by remittance-based consumption in recent years, but the flow of money from Moldovans working abroad declined sharply as the economic crises reduced job prospects in the countries where Moldovans were working. End Summary.

INDUSTRIAL OUTPUT DECLINED

¶12. (U) Industrial production fell 24.2 percent in the first quarter. Leading the declining were food processing and beverages, plus textiles and articles from textiles. Production in the food and beverages subsector declined by 21.5 percent, including the production of processed and canned meat by 23 percent, canned fruit and vegetables by 28 percent, wine by 35 percent and distilled alcoholic drinks by 53 percent. Output of textiles shrank by 31.2 percent and articles from textiles by 23 percent. In addition, the NBS reported that construction was down 36.8 percent and retail 4.3 percent.

AGRICULTURAL PRODUCTION UP

¶13. (U) In the first quarter of 2009, agricultural production increased 3.7 percent compared with the first quarter of 2008. Growth in agriculture was generated by good performance in the animal subsector, but the growth was not uniform. Poultry increased by 46 percent year on year. The production of eggs increased 10.4 percent. Cattle and pig stocks declined 5.4 percent and 1.5

percent, respectively. Milk production dropped 3.7 percent.

LOCAL CURRENCY DEPRECIATES SLIGHTLY AS GOM ACTS

¶4. (U) The MDL depreciated against the USD by 5.2 percent in the first three months of 2009, from 10.4002 MDL/USD in early January to 10.9601 MDL/USD at the end of March. Before the April 5 parliamentary elections, there was a widespread belief that the MDL would depreciate immediately after elections. Though this anticipated depreciation did not occur, the belief in devaluation lingers due to a continuing political crisis and uncertainty about the outcome of new elections scheduled for July 29. The IMF noted in a statement in June that "heavy foreign exchange interventions of more than USD 500 million to defend the leu have eroded competitiveness and drained liquidity from the financial system, weakening the banksQ ability to provide credit to the economy."

FOREIGN TRADE DECLINED

¶5. (U) In the first three months of 2009, total exports declined by 19.2 percent and imports by 25.2 percent. The major Moldovan trading partners remained primarily the same with one notable change in import partners. Kazakhstan became Moldova's major import partner with USD 166 million or 21 percent of imports. The share of

Kazakhstani imports to Moldova had been less than one percent in 2008. The sharp increase in imports from Kazakhstan was due to the purchase of Kazakh natural gas which began in January 2009. Moldova's imports from Russia dropped from 17 percent in 2008 to 6 percent in the current year. Imports from other major partners also decreased, including Ukraine to 11 percent (from 15 percent) and Romania to seven percent (from 13 percent).

¶6. (U) The leading importers of Moldovan goods did not change. Of USD 280 million of exports, 20.5 percent were exported to Romania, 19 percent to Russia, 10.5 percent to Italy, 7.3 percent to Belarus, 6 percent to Germany and 5 percent to Ukraine.

REMITTANCES

¶7. (U) Remittances from Moldovan workers abroad sent via official channels totaled USD 317.6 million in the first four months of 2009, according to the National Bank of Moldova. This was a decrease of 33 percent for the same period in 2008 when remittances were USD 477.1 million. The GOM is monitoring daily transfers of remittances. The daily figure was \$2.4 million in April, down from \$3 million daily in March. The decline in remittances led directly to a drop in consumption which fell 9 percent in the first quarter. Household consumption decreased 10.2 percent in the same period.

COMMENT

¶8. (SBU) The IMF has revised its forecast for the projected decline in GDP for the Moldovan economy for 2009 from 6 percent in spring to 9 percent in June 2009. The unfavorable economic developments in Moldova are further aggravated by political stalemate. Moldova has been in political stalemate since the April 5 parliamentary elections. The parliament was unable to elect a

president and has been dissolved. New elections will take place on July 29, and it is not yet clear what the political configuration of the new parliament will be. According to the IMF, the GOM can expect a budget deficit of at least 11 percent of GDP for 2009, if the budget is not adjusted. Continued political instability will generate a vacuum in power without a parliament or government to implement policies to promote economic activity and reduce government spending.

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